

## **807 KAR 5:013. Management and operation audits.**

RELATES TO: KRS Chapter 278

STATUTORY AUTHORITY: KRS 278.040, 278.255

NECESSITY, FUNCTION, AND CONFORMITY: KRS 278.255(4) provides that the Public Service Commission (hereinafter referred to as "commission") shall adopt rules and administrative regulations setting forth the scope and application of audits, and procedures for conducting management and operations audits of regulated utilities.

Section 1. Definitions. (1) "Audit" means an examination, inspection, evaluation and investigation of records, administrative regulations, policies, objectives, goals, plans, practices, methods or other criteria utilized by management of a utility to conduct its business, and may include appropriate recommendations for improved management and operation techniques.

(2) "Bidders list" means a list of independent firms which have notified the commission of their interest in performing audits.

(3) "Staff" means commission staff.

(4) "Utility" means a utility as defined by KRS 278.010(3).

Section 2. Procedures for Audits Performed by an Independent Firm. (1) When the commission decides to employ an independent firm to audit a utility, the commission shall issue a request for proposal to all firms on the bidders list.

(2) The request for proposal shall include the objectives and scope of the audit, the proposed role of staff in the audit, proposed contractual arrangements, selection criteria, and items, including testimony, reports, and work papers, to be performed or supplied as part of the audit.

(3) The commission shall evaluate all proposals received. It may select one (1) bidder and enter a contract with the successful bidder and the utility, which shall govern performance of the audit, or it may reject all proposals and reissue the request for proposal.

(4) The auditing firm shall forward all invoices for payment to staff. After review and verification of the invoices, staff shall forward the invoices to the utility which shall pay the auditing firm directly.

Section 3. Minimum Requirements of Audits. The following materials shall be submitted to the utility and the staff when the audit is performed by an independent auditing firm and to the utility when the audit is performed by staff:

(1) Detailed work plans describing the technical procedures for performing the work.

(2) Initial draft report describing preliminary findings and conclusions.

(3) A final draft report including a management summary and recommendations.

(4) A final report including:

(a) A management summary.

(b) An action plan for each recommendation detailing the reason for each recommendation, a proposed improvement baseline, an estimate of monetary savings, or other benefits to be realized from implementing it, and an estimate of implementation costs.

(5) Work papers identifying the source of information upon which each finding is based and any other documentation the staff finds necessary shall be provided with the final report.

Section 4. Opportunity for Comment. The utility may comment in writing within the following times:

(1) Fifteen (15) working days from receipt of the draft request for proposal.

(2) Fifteen (15) working days from receipt of each bidder's proposal including the initial work plan.

(3) Twenty (20) working days from receipt of the preliminary draft report.

(4) Ten (10) working days from receipt of the final draft report.

Section 5. Implementation of Audit Recommendations. (1) The utility shall respond to all action plans and shall adopt, adopt with exception, or reject each recommendation. The response shall include detailed steps by which the utility proposes to implement each recommendation adopted or adopted with exception. The utility shall provide a detailed basis for rejecting any recommendation.

(2) Except for recommendations which staff has agreed are complete, the utility shall file progress reports for each open recommendation every six (6) months for the first two (2) years after the final audit report is issued, and annually thereafter.

Section 6. Deviations from Rules. For good cause shown, the commission may permit deviations from these rules. (22 Ky.R. 503; eff. 9-25-1995; Crt eff. 3-27-2019.)